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SUBJECT: SENIOR PRESIDENTIAL AIDE ON ANTI-CRISIS MEASURES,
G-20, AND WTO

REF: A. MOSCOW 907

[1](#)B. MOSCOW 898

Classified By: Ambassador John R. Beyrle for reasons 1.4 (b/d)

Summary

[1](#)1. (C) In an April 10 meeting with Congressman Mike Rogers (R-MI) and the Ambassador, President Medvedev's Economic Assistant, Arkadiy Dvorkovich, defended the GOR's anti-crisis measures. Support for the banking system, especially in dealing with non-performing loans, was a GOR priority. High interest rates and inflation were the biggest problems for the corporate sector, Dvorkovich said. To ease the burden on the corporate sector, increases in payroll taxes for social security would probably be compensated by a reduction in the VAT tax. Dvorkovich said the GOR was for the most part satisfied with the results of the London G-20 Summit, and was prepared to ease off in its support for alternative reserve currencies. On bilateral issues, the Ambassador underscored the U.S. commitment to Russia's WTO accession, but noted that progress on addressing the concerns of U.S. pork, poultry and beef industries was an important condition for renewing momentum on the bilateral trade dialogue. End Summary.

Kudos on Tax Policy

[1](#)2. (C) Congressman Rogers opened the discussion by complimenting Dvorkovich on the GOR corporate tax policy (i.e., the 20 percent flat tax) and the GOR's decision to defer corporate tax payments for the last quarter of 2008, noting that those measures were well received by U.S. investors in Russia. Dvorkovich said that GOR now sought to increase pension contributions out of corporate payroll taxes without placing an excessive burden on the corporations. (Note: Approving a delay sought by businesses, the GOR has already pushed back the eight percent increase in pension and other social security taxes from next year to 2011).

[1](#)3. (C) Dvorkovich said that the payroll tax increases would be compensated by a reduction in the VAT tax, although the Ministry of Finance had not determined the scale of those reductions. There was also support in some GOR quarters for a national sales tax, in which revenues would stay in the regions, but the Ministry of Finance was not yet on board. Increasing taxes was politically unpopular, Dvorkovich observed, especially as people were trying to make ends meet with double digit inflation.

Support to Banks and Corporations

¶4. (C) Responding to Congressman Roger's inquiry about GOR's reserves, Dvorkovich stated that from October 2008-January 2009, \$200 billion of GOR's reserves were "spent down" in helping banks and corporations deal with the crisis. Since then, the currency had stabilized and trade balance was positive, he said. Now, the biggest burden on corporate sector were high interest rates, he noted, and Russia (with inflation at 13-15 percent) was one of the only countries where interest rates had gone up since the crisis began. In order to deal with the problem of non-performing loans (at least 10 percent of banks' portfolios by some government estimates, higher according to independent experts), the GOR would allocate money from the budget to help banks restructure loans, but was not interested in acquiring shares, or "dictating specific conditions" to the banks, Dvorkovich explained.

¶5. (C) The GOR would give seasonal support to agricultural banks and help individual Russians restructure mortgage loans, Dvorkovich continued. (About one million Russians have mortgages, he said) In cases of mortgage default, the GOR would assist banks in buying back the loans from the State Mortgage Agency. Very few Russians were in danger of losing their homes, he averred, but in some areas, apartments were now worth less than the loans to purchase them.

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Strategic Investments

¶6. (C) Congressman Rogers asked if the Russian Law on Strategic Investments had succeeded in attracting U.S. business and capital. Dvorkovich answered that the Russian law was modeled after U.S. legislation, but actually stipulated less oversight by the national security agencies. To his recollection, no negative decisions had been taken against foreign strategic investors, nor were there any major obstacles to their doing business in Russia. In some cases, cooperation in the nuclear and defense sectors required an inter-governmental agreement, he added. The Ambassador thanked Dvorkovich for the GOR's efforts to resolve Sakhalin 1 budget issues (Ref A).

G-20 and the Global Economy

¶7. (C) Asked by the Ambassador if President Medvedev was satisfied with the results of the London G-20 meeting, Dvorkovich said Medvedev had "expected worse" and was particularly satisfied with progress on the Financial Stability Board and IMF allocations. Further work was required on financial regulation, Dvorkovich commented, but the Russians preferred a framework on common principles rather than a global regulatory body. He said the GOR had backed off on pushing officially for the gold standard or alternative international reserve currencies, but would pursue discussion on those topics, as well as an expanded role for the SDR, in "academic and professional circles".

¶8. (C) Dvorkovich agreed with Congressman Rogers that it was important not to "rattle the markets" with uncertainty and speculation about currency policy, and President Medvedev shared that view. Dvorkovich added that keeping oil prices in the "rational range" of \$50-75 per barrel was also important for market stability. At those prices, oil companies would be able to invest in development and new exploration, especially in areas where extraction costs were high. Referring to the "Dutch disease", Dvorkovich said that

oil prices of \$100-150 a barrel were not only detrimental to Russia, but also to the international markets, where oil backed securities had been used as speculative financial instruments.

¶9. (C) Dvorkovich was optimistic about global recovery provided the U.S. found the "political will" to limit spending and control its debt. He said Russia, in turn, needed to take advantage of the crisis to eliminate inefficient companies, especially within large conglomerates such as Rusal, and make them internationally competitive - without resorting to protectionism.

WTO and Other Bilateral Issues

¶10. (C) The Ambassador underscored that Russia's WTO accession was a priority for the President Obama, but a corresponding effort was needed on the Russian side. The Ambassador handed Dvorkovich a copy of an April 8 letter from U.S. poultry producers to President Obama, asking him to delay Russia's accession and withhold PNTR from Russia until the issue of delisting pork plants was resolved. The Ambassador noted that it would be difficult for the President to ignore U.S. pork producers' concerns, and Congressman Rogers added that the pork producers' issues had also come to his attention and those of his Congressional colleagues.

¶11. (C) Dvorkovich acknowledged that agricultural protectionism, as well as IPR issues, remained obstacles to Russia's WTO accession, although he stated that the Russia's level of agricultural supports was much lower than in many WTO countries. He claimed that Jackson-Vanik was a neuralgic issue for many Russians, and the U.S. had to rescind that legislation. He said he looked forward to the U.S. Trade Representative's participation in the June Saint Petersburg Economic Forum, adding that he hoped the Secretaries of Treasury and Commerce - as well as former President Clinton - would attend as well (Ref. B). Dvorkovich confirmed that Minister of Economic Development Nabiullina will be the person on WTO, reporting to First Deputy PM Shuvalov.

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¶12. (C) On other bilateral issues, the Ambassador said the exact dates for the POTUS visit in July were awaiting confirmation. Dvorkovich said the GOR was considering proposing a POTUS side visit to a site outside of Moscow, but inside the golden ring. Dvorkovich also mentioned that he would attend President Obama's proposed Energy and Climate Forum in New York on April 27-28, following that with meetings in Rome in preparation for the G-8 summit. He also planned to attend a RAND Corporation conference in New York on May 15-16 and hoped to work in a one-day trip to Washington for official meetings (during which he is hoping to meet with NEC Chairman Summers).

Comment

¶13. (C) Dvorkovich defended GOR's anti-crisis measures and budget deficit approach, of which he is one of the GOR's leading advocates, even while criticizing U.S. economic stimulus efforts. The reality is that rhetoric aside, the GOR is counting on a U.S. recovery later this year to restore health to the Russian economy through higher commodity prices. On WTO accession, as we work to restore momentum, it will be important to impress upon Dvorkovich and other senior GOR officials the need to resolve recent trade disputes, including especially the concerns of U.S. pork, poultry and beef producers. End Comment.

BEYRLE